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ABSTRACT

The purpose of this manual is to provide an accounting system that will accurately measure the financial position and operating results of a food service operation. The accounting system has been designed to be easily adaptable to the reporting requirements established by the Food and Nutrition Service of the United States Department of Agriculture in their publication entitled "Financial Management-Cost-Based Accountability." The federal government's cost-based accounting program's basic goal is to insure that all costs incurred in the operation of a school food service program are properly allocated to the various food service programs being offered by a school system. In order to accomplish this allocation, it is necessary for the school system to collect basic cost information and maintain appropriate records. The accounting system is structured toward appropriation accounting; accordingly, budgetary accounts are provided for in the manual. The manual also provides procedures for recording depreciation expense.
(Author/MLF)

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MANUAL OF ACCOUNTING

FOR

PENNSYLVANIA SCHOOL SYSTEMS

FOOD SERVICE FUND

(Cafeteria Fund)

Prepared by:

Division of School Accounting Systems

Bureau of School Accounting and Subsidies

Comptroller's Office

PENNSYLVANIA DEPARTMENT OF EDUCATION

EA 012 340

This manual was prepared in cooperation with the Division of Food and Nutrition Services, Bureau of Educational Administration and Management Support Services, Pennsylvania Department of Education. It coincides with the guidelines established by the Funds Management Section, United States Department of Agriculture's Food and Nutrition Service, in its publication, Financial Management-Cost Based-Accountability.

The manual is printed in loose-leaf form to facilitate periodic updating.

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INTRODUCTION

The purpose of the Manual of Accounting for Pennsylvania School Systems-Food Service Fund is to provide an accounting system that will accurately measure the financial position and operating results of a food service operation. The accounting system has been designed to be easily adaptable to the reporting requirements established by the United States Department of Agriculture, Food and Nutrition Service in their publication entitled Financial Management-Cost-Based Accountability.

The federal government's cost-based accounting program's basic goal is to insure that all costs incurred in the operation of a school food service program are properly allocated to the various food service programs being offered by a school system. In order to accomplish this allocation, it is necessary for the school system to collect basic cost information and maintain appropriate records. Some of the information required is probably already being maintained by many schools. If so, the process of adopting the accounting system in the Manual of Accounting for Pennsylvania School Systems-Food Service Fund will be much easier.

Since the Manual of Accounting for Pennsylvania School Systems-Food Service Fund can be used by public schools, private schools and residential child care centers, the term Food Service Fund has been used to identify the fund entity applicable to food service operations instead of the term Cafeteria Fund. The change in terminology was made because the term Food Service is universally used by all levels of government when writing about or discussing the food service operation.

The Food Service Fund can be defined as a modified Enterprise Fund. An Enterprise Fund is a fund established to finance and account for the acquisition, operation, and maintenance of governmental facilities and services which are entirely or predominantly self-supporting by user charges. The Food Service Fund is a modified Enterprise Fund because most Food Service Funds in Pennsylvania's public school system depend on support from the General Fund of the school system, as well as Federal subsidization in order to operate.

The accounting system is structured toward appropriation accounting; accordingly budgetary accounts are provided for in the manual. Although the use of appropriation accounting procedures are not required by law for the Food Service Fund, school systems are encouraged to employ budgetary accounting procedures as part of their Food Service Funds' fiscal management procedures.

In the Food Service Fund, items of equipment are capitalized rather than expensed; however, the accounting system for the Food Service Fund is designed to allow school systems to record equipment purchases as expenditures for budgetary purposes.

The manual also provides procedures for recording depreciation expense. Depreciation expense should be calculated since equipment costs are capitalized.

The accounting system for the Food Service Fund includes not only accounts for reporting cash receipts and disbursements, but also accounts for reporting transactions that have value but do not generate actual cash flow to or from the Food Service Fund.

Not all the accounts in this manual have to be used to have accounting records present adequate financial disclosure; however, the additional accounts are provided for school systems that desire a detailed costing system.

CHART OF STANDARD BALANCE SHEET ACCOUNTS

FOOD SERVICE FUND

CHART OF STANDARD BALANCE SHEET ACCOUNTS

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FOOD SERVICE FUND BALANCE SHEET GROUP OF ACCOUNTS
Definitions and Descriptions

Introduction

This section of the manual contains definitions and descriptions of the Food Service Fund Balance Sheet Group of Accounts.

A Balance Sheet is a statement which discloses the assets, liabilities, reserves, and equities of the Food Service Fund at a specified date and is intended to exhibit the financial position of the Food Service Fund at that date.

Each school system, regardless of size should maintain a set of Balance Sheet accounts for its Food Service Fund. The accounts of a Balance Sheet fall into the following classifications:

1) Assets
2) Liabilities
3) Equity and Equity Reserve
4) Operating
5) Budgetary

The first three of the above classifications are known collectively as the Proprietary accounts and the last two, which include actual revenues and expenditures and estimated revenues and appropriations, are known collectively as the Operating and Budgetary accounts.

Proprietary, Budgetary and Operating Accounts of the Balance Sheet

The Proprietary accounts indicate what is owned in the Food Service Fund (assets), what is owed (liabilities) and the fund equity, that is, the amount by which the assets exceed the liabilities (a plus balance or surplus) or if the liabilities exceed the assets (a minus balance or deficit). Budgetary accounts are used for recording the budget plan and Operating accounts for recording the actual financial operations under that plan. Brought together in a financial statement, during the year these accounts show not only the actual resources and obligations, but also the unrealized resources and outstanding commitments of the Food Service Fund.

At the end of each fiscal year, the Operating and Budgetary accounts have served their purpose and are closed into Budgetary Clearance. The net operating results, as summarized in Budgetary Clearance, represent an increase or decrease in the fund equity which is closed to the Fund Balance account. After the Operating and Budgetary accounts are closed only the Proprietary accounts remain open. A fund balance sheet is prepared from the open Proprietary accounts. The statements of financial operations for the fiscal year are prepared from the data recorded in the accounts of the subsidiary ledgers of the fund concerned, including particularly the Revenue and Expenditure Ledgers.

Identification of the Balance Sheet Accounts by Code Number

Each Balance Sheet account is assigned a four-digit number serving the following purposes:

1st digit - identifies the Balance Sheet
2nd digit - identifies the group classification within the Ledger
3rd digit - identifies the sub-group within a given classification
4th digit - identifies the particular account within a given sub-group

Thus, for example, the account code 3111 identifies:

- in the 1st digit, a 3 - the General Ledger
- in the 2nd digit, a 1 - an asset account
- in the 3rd digit, a 1 - liquid asset
- in the 4th digit, a 1 - the most liquid asset, Cash

Within the limits of this field of four digits, the first digit of a Balance Sheet account is always a 3, but the remaining three digits change to reflect the classification of group and sub-group and to reflect the particular account of the Balance Sheet which is being identified by the code number assigned.

Description of the General Ledger Accounts

The nature of the Balance Sheet accounts and the special characteristics of each are described on the following pages. The account descriptions are preceded by a description of the group to which the account belongs and are presented in substantially the same order as they appear on a balance sheet or statement of financial position.

3100 ASSET ACCOUNTS

Assets are things of value owned. They have value because other things of value may be exchanged for them or they are useful in accomplishing the objectives of the fund.

3111 CASH

Cash consists of legal tender, checks, bank drafts, money orders and demand deposits in banks, including demand certificates of deposit, but not time certificates which are classified as investments.

The debit balance in the account represents the amount of cash in depositories and in process of deposit which is available for approved disbursements.

All receipts of cash should be deposited daily in approved depositories and accounted for as a part of the Food Service Fund.

Reconciliation of the various Cash accounts with the statement provided by the depository should be made at least once a month. Entries to record any items noted on the bank statement and not previously recorded in the district books should be made at the time of the reconciliation.

Deposits in savings accounts are classified on the balance sheet as Cash, because the bank's legal right to demand a certain notice before withdrawal is rarely exercised. For bookkeeping and administrative purposes, however, such deposits are segregated into separate accounts in the accounting records of a school system. At the option of the school system, the type of account and the identity of the bank may be indicated in the accounting records in the following manner:

3111.11 Cash in Checking Account - Bank A
3111.12 Cash in Checking Account - Bank B

3111.21 Cash in Savings Account - Bank A
3111.22 Cash in Savings Account - Bank B

In a similar manner, other variations of what is reported on the balance sheet as being in account 3111-Cash may be segregated and identified in the detailed accounting records of a given school system.

Debit (increase) this account with the amount of cash received by the Food Service Fund from all sources.

Credit (decrease) this account with the amount of checks issued and with the amount of deposited checks returned unpaid by the depository.

3112 PETTY CASH

Petty Cash is a sum of money, either in the form of cash or a special bank deposit, set aside for use in making immediate payment of comparatively small amounts or in making change.

Account 3112 is commonly referred to as an imprest or advanced account and the balance should only reflect the amount advanced to the account for the purpose for which it is established. Generally accepted accounting procedure recognizes that only the advance cash, additional advances or repayments of advances are charged to this account. After a number of charges are paid from Petty Cash, it becomes necessary to replenish the Petty Cash account. The invoices for which payments were made from the Petty Cash account are totaled and classified by line item of expenditures. A check against the regular 3111-Cash account is drawn in the amount of the total disbursements. To offset the credit to 3111-Cash debits are made to the various expenditure accounts for which the disbursements were made.

The debit balance in Account 3112 is always equal to the sum of the cash on hand and documents supporting unreimbursed expenditures. Even though not depleted to the customary replenishing point, petty cash advances should be replenished at the end of each accounting period so that the disbursements made with petty cash funds will be recorded as expenditures of the proper accounting period. Petty cash advances should be replenished or increased by check only and never from undeposited cash receipts.

Debit (increase) Account 3112 with the original or additional amount of cash set aside or advanced for petty cash purposes.

Credit (decrease) Account 3112 when any part of or all the advanced amount is returned to Cash.

3113 INVESTMENTS

Investments include those assets (time certificates of deposit, securities and other properties) of a fund in which money is invested either temporarily or permanently for the purpose of producing an income. The forms of investments must be in accordance with applicable federal and state laws.

In addition to the Balance Sheet accounts, subsidiary records are required to record the details of each investment and to control security documents. A separate account is kept for each individual security (or group of securities of the same issue) and a complete history of the investments should be recorded in the individual security account.

The above accounting procedures apply primarily to the purchase of United States Treasury Bills and other short-term securities. When long-term investments, such as bonds, are purchased, the amount of accrued interest purchased and premium or discount should be accounted for separately because of the effect on the earnings of the investments. The additional accounts necessary for this purpose should be opened by those school systems which invest in securities held for a relatively long period of time.

When securities are acquired by gift, rather than by purchase, the amount of the debit (increase) to Account 3113 is their estimated value as of the date received.

Debit (increase) Account 3113 with the total cost of investments purchased, including accrued interest, brokerage fees and commissions paid as part of the purchase price.

Credit (decrease) Account 3113 with the total cost of investments sold or redeemed. When securities are sold or redeemed, gains are recorded as credits (increases) to Account 2041.

3121 DUE FROM OTHER FUNDS

This account represents the amount owed to the Food Service Fund by other funds within the school system. Loans by the Food Service Fund to other funds may be in the form of cash, materials and equipment, services rendered or payments made on behalf of another fund for which repayment is expected.

Each fund is an independent fiscal entity and must be accounted for independently. When an interfund transaction is in the nature of a loan, the asset account Due From Other Funds is created in the fund extending the loan and the liability account Due to Other Funds is created in the fund receiving the money, goods services or other consideration. For example, in a transaction between the General Fund and Food Service Fund, the General Fund may provide for incidental costs relating to the operations of a cafeteria with the intention of recovering the cost of the expenditures at a later date from the Food Service Fund.

The disbursement of cash by the General Fund on behalf of a Food Service Fund is not charged as an expenditure against the appropriation of the General Fund, but is accounted for as an asset in the General Fund and as a liability in the Food Service Fund.

An example: The General Fund pays an invoice of $675.00 for laundry and linen services relating to the cafeteria operations. The accounting entries are:

In the accounts of the General Fund -			
Dr.	3121 Due From Other Funds	$675.00	
Cr.	3111 Cash		$675.00
In the accounts of the Food Service Fund			
Dr.	0951 Contracted Service - Laundry & Linen	$675.00	
Cr.	3221 Due to Other Funds		$675.00

Another example: The General Fund makes a cash advance of $5,000.00 to the Food Service Fund so that the Food Service Fund can pay its own bills pending receipt of Federal Subsidies. The accounting entries are:

In the accounts of the General Fund -			
Dr.	3121 Due From Other Funds	$5,000.00	
Cr.	3111 Cash		$5,000.00
In the accounts of the Food Service Fund			
Dr.	3111 Cash	$5,000.00	
Cr.	3221 Due to Other Funds		$5,000.00

When the advance is repaid by the Food Service Fund to the General Fund, the above entries are reversed.

Debit (increase) account 3121 with the amount of the loans made by the Food Service Fund to another fund of the same school system.

Credit (decrease) account 3121 with the amount of the repayments, which are usually in the form of a cash settlement, but may be in the form of goods, services or other value received.

3122 DUE FROM OTHER GOVERNMENTAL UNITS

This account represents the amount owed to the Food Service Fund by other governmental units (excluding the state and federal government). Loans by the Food Service Fund to governmental units may be in the form of cash, materials and equipment, services rendered or payments made on behalf of another governmental unit for which payment is expected.

Debit (increase) account 3122 with the amount of loans made by the Food Service Fund of a school system to other governmental units.

Credit (decrease) account 3122 with the amount of repayments made to the Food Service Fund by other govermental units.

3123 OTHER RECOVERABLE DISBURSEMENTS

This account represents the amount of disbursements made for or on behalf of a private individual, firm or corporation which are expected to be recovered in cash or its equivalent. The most common transaction affecting this account is to record disbursements for contracted services and other expenses incurred by the school system to restore losses covered by insurance.

When the disbursement is made, the accounting entry is:

Dr.	3123	Other Recoverable Disbursements	xxx	
Cr.	3111	Cash		xxx

When the recovery is received, the above entry is reversed.

To support this Balance Sheet account, sub-accounts should be maintained in a subsidiary ledger so that the details of each disbursement and recovery are identifiable. A detailed account is maintained for each claim against an insurance company.

With reference to the repair or replacement of insured losses, the amount received from the insurance company in settlement may not cover the cost of restoration. In this event the difference between the cost incurred and the settlement received is charged as an expenditure against the proper expenditure account.

3132 STATE SUBSIDIES RECEIVABLE

This account represents state subsidies earned and recorded as revenue for which payment has not been received.

A subsidiary or supporting record should be maintained so that future receipt of state subsidy payments can be identified and charged to the applicable account-subsidies receivable or current revenue.

Debit (increase) account 3132 with the amount of subsidies earned, but unpaid, as they become due during the fiscal year or in total at the end of the fiscal year. The offsetting credit entry is to the General Ledger account Revenue from State Sources and detailed in the Subsidiary Revenue Ledger to the state subsidy to which the receivable applies.

Credit (decrease) account 3132 with the amount of subsidies received which have been previously recorded as receivables.

3133 FEDERAL SUBSIDIES RECEIVABLE

This account represents federal subsidies earned and recorded as revenue for which payment has not been received.

A subsidiary or supporting record should be maintained so that future receipt of federal subsidy payments can be identified and charged to the applicable account-subsidies receivable or current revenue.

Debit (increase) account 3133 with the amount of subsidies earned, but unpaid, as they become due during the fiscal year or in total at the end of the fiscal year. The offsetting credit entry is to the General Ledger account Revenue From Federal Sources and detailed in the Subsidiary Revenue Ledger to the federal subsidy to which the receivable applies.

Credit (decrease) account 3133 with the amount of subsidies received which have been previously recorded as receivables.

3134 OTHER REVENUE RECEIVABLE

This account represents throughout the year the sum of the uncollected, but realizable revenues from all sources other than state and federal subsidies.

3142 INVENTORY OF MATERIALS AND SUPPLIES - FOOD SERVICE

Inventory of Materials and Supplies represents the cost value of materials and supplies on hand.

The following accounting procedure pertains to its use by the Food Service Fund at the close of the accounting period.

Account 3142 is decreased (credited) at the close of the accounting period by the balance in this account at the beginning of the accounting period. The other half of the accounting entry is to increase (debit) account number 0923-Non Food Supplies.

After the previous entry is made, account 3142 is increased (debited) with the cost value of the quantities of materials and supplies on hand. The other half of the accounting entry is to decrease (credited) account number 0923-Non Food Supplies.

This manual does not propose to set forth a recommended procedure to account for or control inventories of materials and supplies. For discussion purposes a distinction between accounting and controlling will mean:

1) Accounting - The recording of the value of materials and supplies on hand at any given time in the ledger accounts of the school system.

2) Controlling - The recording of receipts and issuance of materials and supplies, maintaining adherence to budgetary limitations and the protection of public funds.

Due to the variation in size and complexity of the Food Service programs in the numerous and divergent school districts, accounting and control of inventories may vary from the simplest of procedures such as the mere listing of items on hand and their value at the end of an accounting period to well regulated perpetual inventory systems. Also, the relationship between the accounting entries and controlling records between or within accounting systems may vary widely.

Inasmuch as there is no one rigid practice for all districts to follow, it is imperative that the administrators of each district study and recognize the problems in the area of inventory control and design a system applicable to the needs of the school. Some major aspects to consider in establishing a functional system of inventory accounting and control are:

1) Systems may vary from fund to fund within the same district.
2) Record keeping costs must not be disproportionate with the value of the items controlled.
3) In addition to providing quantity, value and use information, a system should serve as a purchasing and budgeting guide.
4) The funds of the district, as represented by the investment in inventory of materials and supplies, are safeguarded from loss, theft or misuse by exercising proper control.
5) The record keeping should not be burdensome to the point of discouraging the use or impeding the procurement of supplies when actually needed.
6) Poorly designed, bothersome and time-consuming record keeping leads to circumvention of procedures and will tend to make the system inoperable.
7) Improper control resulting in loss of funds may incorrectly reflect on the integrity or ability of local administrators.

All textbooks on accounting, especially those covering governmental accounting methods, will cover to some degree the problems involved in inventory, accounting and control. Professional organizations concerned with education administration have made and published studies in this area. It is recommended that the administrator make use of this source material in establishing an inventory system for Food Service operations.

3143 INVENTORY OF FOOD

Inventory of Food represents the cost value of food on hand (except milk).

Account 3143 is decreased (credited) at the close of the accounting period by the balance in this account at the beginning of the accounting period. The

other half of the accounting entry is to increase (debit) account number 0921 Food Purchases.

After the previous entry is made, account 3143 is increased (debited) with the cost value of the quantities of food on hand. The other half of the accounting entry is to decrease (credit) account number 0921 Food.

3144 INVENTORY OF MILK

Inventory of Milk represents the cost of milk on hand.

Account 3144 is decreased (credited) at the close of the accounting period by the balance in this account at the beginning of the accounting period. The other half of the accounting entry is to increase (debit) account number 0922 Milk Purchases.

After the previous entry is made, account 3144 is increased (debited) with the cost value of the quantities of milk on hand. The other half of the accounting entry is to decrease (credit) account number 0922 Milk.

3145 INVENTORY OF DONATED FOOD

Inventory of Donated Food represents the fair market value of donated commodities on hand.

Account 3145 is decreased (credited) at the close of the accounting period by the balance in this account at the beginning of the accounting period. The other half of the accounting entry is to debit (increase) account number 0924 Donated Commodities.

After the previous entry is made, account 3145 is increased (debited) with the fair market value of the quantities of donated commodities on hand. The other half of the accounting entry is to decrease (credit) account number 0924 Donated Commodities.

3174 FOOD SERVICE EQUIPMENT

This account represents the cost of all tangible property used in the Food Service operation including motor vehicles that is of a relatively fixed or permanent nature.

Items of equipment that have a nominal cost (refer to Federal Regulations for a definition of nominal cost) or that have a useful life of less than one year are not to be included in account 3174 but are to be treated either as part of materials and supplies inventory (account number 3142) or as an expenditure of the accounting period.

Account 3174 is increased (debited) when new equipment is purchased and decreased when equipment is sold or scrapped.

The following is an example of the accounting entries that would be made to record the purchase of a $5,000.00 piece of equipment:

1) At the time of purchase

Dr. 1247 Capital Outlay Food Service Equipment	$5,000.00	
Dr. 3390 Fund Balance	$5,000.00	
Cr. 3111 Cash		$5,000.00
Cr. 3374 Net Investment in Food Service Equipment		$5,000.00

2) At the end of the accounting period, expenditure account 1247 would be closed to account 3174.

Dr. 3174 Food Service Equipment	$5,000.00	
Cr. 1247 Capital Outlay Food Service Equipment		$5,000.00

If Food Service equipment is being carried in the General Fixed Assets Fund of the school system, the following procedures should be used to transfer the value of this equipment from the General Fixed Asset Fund to the Food Service Fund.

1) Determine the net value of the equipment (cost less accumulated depreciation). The equipment must be recorded on the books of the Food Service Fund in net, even though the equipment is being carried at cost value in the General Fixed Assets Fund.

2) The following entry would be made in the Food Service Fund to reflect the transfer:

Dr. 3174 Food Service Equipment	xxx	
Cr. 3374 Net Investment in Food Service Equipment		xxx

3180 TICKET VALUE ACCOUNT

Ticket Value Account represents the full sales value of tickets on hand in the school office. Account 3180 is always offset by the deferred income account. (Refer to account 3280) The use of account 3180 and the other related ticket value accounts is not mandatory. The use of a ticket value account is only a suggested method for controlling prepaid meal transactions.

The following example describes general ledger accounting entries utilizing a ticket value control account.

Assume that tickets valued at $5,000. are on hand in the school office. These tickets will be sold to pupils and adults for meals.

The following account entries are made in the general ledger to establish the ticket value account:

Dr. Ticket Value Account (account 3180)	$5,000.	
Cr. Deferred Income (account 3280)		$5,000.

The school office secretary sells $500 worth of tickets on the first day of the month. Cash received for these tickets is $375, because there was a total price reduction of $125 for free and reduced price tickets sold. Therefore, the following entries are made:

Dr.	Cash (account 3111)	$375	
Dr.	Price Reduction (account 2069)	$125	
	Cr. Ticket Value account (account 3180)		$500

On the same day, tickets for meals are collected in the cafeteria service line by the cashier. The total value of these tickets is $450 (not all of the tickets sold were collected). The entry to be made is as follows:

Dr.	Deferred Income (account 3280)	$450	
	Cr. Sales to Pupils (account 2061)		$450

If it is a school district's policy to refund unused tickets, the entry shown below is made as refunds are given. If the total valuation of tickets refunded were $25 and $20 cash was actually refunded, then the following entry is made:

Dr.	Ticket Value Account (account 3180)	$25	
	Cr. Cash-checking Account (account 3111)		$20
	Cr. Price Reduction (account 2069)		$ 5

If tickets are lost, the following entry is made:

Dr.	Deferred Income Account (account 3280)	$15	
	Cr. Ticket Value Account (account 3180)		$15

At the end of the school year, unsold tickets should be accounted for in the ticket valuation account. It is recommended that an accounting of unsold tickets be made at more frequent intervals, possibly monthly or quarterly, under conditions that are comparable to those in the following example:

At the end of the school year, there were 1,000 unsold tickets on hand, valued at $.50 each. However, the accounting entries for the year show an ending balance in the ticket value account (3180), of $600.00. The following computation and entry would be required:

Computation of Tickets Physically on Hand:		
1,000 @ $.50	=	$500.00
Book Value of account 3180	=	600.00
Shortage of tickets on hand	=	$100.00

A journal voucher would have to be prepared for approval showing the following entry.

	Account No.	Debit	Credit
Deferred Income	3280	$100.00	
Ticket Value Account	3180		$100.00

After being approved, the journal voucher should be journalized and then posted to the general ledger.

At this time the Ticket Value account and the Deferred Income account should theoretically have equal account balances; however, their balances will likely differ because: (1) some students will either lose or not use some tickets, and the deferred income will not have received the entry for the food sale; (2) there may be some errors in accounting entries; and (3) the adjustment to the Ticket Value account, as shown above, is affecting the Deferred Income account. Therefore, the Deferred Income account will also require a journal voucher adjustment.

The procedure for adjusting the Deferred Income account should be under conditions comparable to those in the following example.

At the end of the school year, after notice has been given to all students to claim refunds (if a refund policy is practiced), the Ticket Valuation account is adjusted to $500.00, and the Deferred Income account now has a book balance of $750.00. The Deferred Income account should now be adjusted to the Ticket Valuation account balance and would be computed as follows:

Deferred Income book balance	$750
Ticket Value account balance	500
Adjustment required	$250

A journal voucher would have to be prepared for approval showing the following entry:

	Account No.	Debit	Credit
Deferred Income	3280	$250.00	
Miscellaneous Revenue	2049		$250.00

If there is only $250 in the Deferred Income account because of earlier ticket counting errors, this difference between $500 of ticket valuation on hand, must be absorbed as an expense. The entry would be as follows:

	Account No.	Debit	Credit
Other Expenses For Food Services	0939	$250.00	
Deferred Income	3280		$250.00

3200 LIABILITY ACCOUNTS

Liabilities are amounts owed by the Food Service Fund. They represent unpaid obligations which must be liquidated by payment either from current or future revenues.

3211 PAYROLL PAYABLE

This account represents the remainder due to be paid to the Payroll Fund, individuals or other proper payees for payroll obligations which have been recorded as expenditures in the accounting records of the Food Service Fund but have not yet been paid.

Hereafter the term gross in gross pay, paid in gross, transferred in gross and charged in gross refers to an individual's or group of individuals' total remuneration earned prior to withholdings of any nature.

The term net in net pay, paid in net, transferred in net and charged in net refers to the amount an individual or group of individuals receive or will receive after all withholdings have been subtracted from the total remuneration earned.

The payroll (salaries earned) is always charged in gross (total salaries) to the appropriate expenditure (salary expenditure) accounts when recorded in the fund concerned. The charge to the expenditure accounts is in gross whether there is a transfer to the Payroll Fund of gross wages or net wages or whether individuals are paid directly in net wages from the Food Service Fund.

If a Payroll Fund is used and the transfer from the Food Service Fund to the Payroll Fund is in gross, there is no difference between the amount charged to the expenditure accounts and the amount disbursed or transferred to the Payroll Fund; therefore, account 3211 will not be increased when the payroll is recorded as an expenditure. On the other hand, if the amount of payroll transferred to the Payroll Fund is in net, the payroll deductions withheld represent the difference between the sum of the charges to the expenditure accounts and the amount transferred to the Payroll Fund. This difference is the amount that will be credited to account 3211 in the Food Service Fund.

If individuals are paid in net by the Food Service Fund, there is always a difference between the sum of the charges to the expenditure accounts and the net paid to the individuals. This difference is in the amount that will be credited to account 3211-Payroll Payable in the Food Service Fund.

To support the General Ledger Control account 3211-Payroll Payable, detailed records must be maintained in a subsidiary ledger. The subsidiary ledger is divided into two principal parts which at the option of the school system may be coded and identified as:

3211.10 Net Salaries and Wages Payable
3211.20 Payroll Deductions Payable

Subaccount 3211.20-Payroll Deductions Payable may be, in turn, subdivided into detailed accounts which identify each payroll deduction separately, such as:

3211.21 Employees' Income Taxes Payable
3211.22 Employees' Social Security Taxes Payable
3211.23 Employees' Retirement Payable
3211.24 Employees' Medical/Hospital Payable
3211.25 Employees' Bond Deductions Payable
3211.26 Employees' Group Insurance Payable
3211.27 Municipal Wage Taxes Payable
3211.28 Court-Ordered Deductions
3211.29 Other Payroll Deductions Payable

If the transfer to the Payroll Fund is in gross, these detailed accounts are maintained in a subsidiary ledger of the Payroll Fund. If the transfer to the Payroll Fund is in net or the individuals are paid in net by the Food Service Fund, the detailed Payroll Deduction accounts are maintained in a subsidiary ledger of the Food Service Fund.

When the amounts due a governmental unit or other agency are paid, the detailed accounts are debited (decreased) in the amount of the payment. The debits are also posted to the Subsidiary Ledger control account 3211.20-Payroll Deductions Payable and to the General Ledger control account 3211-Payroll Payable.

The sum of the credit balances in the detailed accounts 3211.21 through 3211.29 must always equal the credit balance in the Subsidiary Ledger control account 3211.20-Payroll Deductions Payable. The sum of the credit balances in the Subsidiary Ledger control accounts 3211.10-Net Salaries and Wages Payable and 3211.20-Payroll Deductions Payable is always equal to the credit balance in the General Ledger control account 3211-Payroll Payable of the Food Service Fund.

The payroll liability accounts pertain only to amounts withheld from employees by payroll deductions and do not include amounts collected directly from employees. For example, cash collections from employees are accounted for through the use of other General Ledger accounts, usually the Asset account 3111-Cash and one or another of the liability accounts in the 3220 series or the liability account 3243-Returnable Deposits. If retroactive social security collected in cash must be transmitted by check of the school system, the accounting entries are:

When the retroactive social security is collected in cash -

Dr.	3111	Cash	xxx	
Cr.	3222	Due to Other Governmental Units		xxx

When the cash collected is transmitted to the Commonwealth -

Dr.	3222	Due to Other Governmental Units	xxx	
Cr.	3111	Cash		xxx

Futhermore, the payroll liability accounts pertain only to the employees' share of retirement, social security, etc. and not to the employer's share of these costs. The employer's share of the expenditure payroll liability is accounted for in the 0800 account series and account 3212-Accounts Payable. The employer's share of the 0800 Fixed Charges or any other liability accrued on the part of the district due to governmental statute or employee contractual relations should be recorded at the time of payroll disbursement to properly reflect the true financial status of the district.

In summary, account 3211-Payroll Payable is used in the Food Service Fund in lieu of the disbursement of cash when salaries and wages are recorded as expenditures. If the transfer to the Payroll Fund is in gross and the Food Service Fund is not in arrears in its disbursements to the Payroll Fund, Account 3211 is not used by the Food Service Fund. If, on the other hand, the Food Service Fund is in arrears to the Payroll Fund, the Food Service Fund would use account 3211. If the transfer to the Payroll Fund is in net or the individuals are paid directly in net, the account 3211-Payroll Payable of Food Service Fund is used.

The credit balance in account 3211-Payroll Payable of the Food Service Fund at the end of an accounting period represents the unpaid payroll obligations of the accounting period for which cash will have to be on hand or be provided from in the succeeding accounting period.

Debit (decrease) account 3211 with the amounts disbursed to governmental agencies and other proper payees for income, wage and social security taxes, retirement, hospitalization, insurance and other such payroll deductions previously withheld. Also, debit this account with the amounts disbursed for net salaries and wages which have been previously charged to expenditures and credited to this account.

Credit (increase) account 3211 with the amounts charged as salary and wage expenditures for the accounting period but which are unpaid at the end of the accounting period.

3212 ACCOUNTS PAYABLE

This account represents the amount of recorded, but unpaid, expenditures arising from all transactions except those pertaining to payrolls, other funds and other governmental units, for which cash will have to be on hand or be provided from other sources in the succeeding accounting period.

According to the principles of governmental accounting, materials received and put into use and services rendered should be recorded as expenditures against the budgetary appropriations of the fiscal year benefited. If cash is disbursed when the expenditure is recorded, the debit (increase) to the appropriate expenditure account is balanced by an equivalent credit (decrease) to the cash account. If cash is not disbursed when the expenditure is recorded, the debit (increase) to the appropriate expenditure account is balanced by an equivalent credit (increase) to the appropriate liability account which, in the case of vendors, is account 3212-Accounts Payable.

Assuming, for example, that an invoice in the amount of $700.00 from a plumbing contractor is to be recorded as an expenditure of the Food Service Fund in the accounting period benefited, but not paid until the next accounting period, the accounting entries are:

When the invoice is recorded as an expenditure, but not paid -

Dr.	0954	Contracted Services - Repairs and Maintenance	$700.00	
Cr.	3212	Accounts Payable		$700.00

When the cash is disbursed in the next accounting period -

Dr.	3212	Accounts Payable	$700.00	
Cr.	3111	Cash		$700.00

The General Ledger account 3212-Accounts Payable is generally maintained throughout the year. When this account is maintained throughout the year, it is the interim step between the charging of expenditures and the disbursement of cash.

If this account is used only at the end of an accounting period or fiscal year, the unpaid bills on hand that are applicable to the prior period are charged (debited) to the appropriate expenditure accounts and the total bills are charged (credited) to General Ledger account 3212-Accounts Payable. Bills that are recorded as accounts payable only at the end of accounting periods should be easily identifiable so that when cash payment is made in the following accounting period the General Ledger accounts 3212-Accounts Payable is debited (decreased) rather than increasing an expenditure account which would result in a duplication of charges.

Credit (increase) account 3212 with the amount of the recorded, but unpaid, expenditures for all obligations other than those pertaining to Payroll Payable, Due to Other Funds and Due to Other Governmental Units.

Debit (decrease) account 3212 with the amounts paid in liquidation of the previously established liabilities.

3221 DUE TO OTHER FUNDS

This account represents the amount owed by the Food Service Fund to other funds within the school system. Loans to the Food Service Fund may be in the form of cash, materials and equipment, services rendered or payments made on behalf of the Food Service Fund by another fund for which repayment is expected.

Interfund transactions should be recorded in the accounting records immediately for cash loans or advances and for receipt of goods or services. Entries pertaining to the advance and return of cash between funds of the same school system are illustrated in the discussion of the General Ledger asset account 3121-Due From Other Funds. In the same manner that the summary asset account 3121-Due From Other Funds is supported by a subsidiary ledger, the summary liability account 3221-Due to Other Funds is likewise supported.

Credit (increase) account 3221 with the amount borrowed from another fund of the same school system.

Debit (decrease) account 3221 with the return of cash advances or with the payment made in cash or its equivalent for goods, services or other value received.

3222 DUE TO OTHER GOVERNMENTAL UNITS

This account represents the amount owed by the Food Service Fund to other governmental units. Loans to the Food Service Fund from other governmental units may be in the form of cash, materials and equipment, services rendered or payments made on behalf of the Food Service Fund for which payment is expected.

Credit (increase) account 3222 with the amount of loans made to the Food Service Fund by other governmental units.

Debit (decrease) account 3222 with the amount of repayment made by the Food Service Fund to other governmental units.

3223 PREPAYMENTS FROM PERSONS OR FIRMS

This account represents the remainder due to be disbursed in fulfillment of obligations for which payment was received in advance.

Account 3223 is the counterpart of the asset account 3123-Other Recoverable Disbursements and is used to record the settlement received from an insurance company in advance of incurring the costs involved in making restoration of damages or other losses covered by insurance.

Regardless of the purpose for which the prepayment is received, the accounting entries are:

When the prepayment is received by the school system -

Dr.	3111 Cash	xxx	
Cr.	3223 Prepayments from persons or firms		xxx

When the corresponding disbursement is made by the school system -

Dr.	3223 Prepayments from persons or firms	xxx	
Cr.	3111 Cash		xxx

To keep an accurate record of such prepayments, a subsidiary ledger must be established identifying the money received in advance by purpose and by person or firm. To this end, account 3223-Prepayments from Persons or Firms is subdivided in the same manner as previously described for other General Ledger control accounts.

If all of the obligations for which prepayment has been received are met in the accounting period, there will not be a credit balance in this account as of the end of the accounting period.

3241 REVENUE RECEIVED IN ADVANCE

This account represents the revenue received in advance which remains to be credited to the proper revenue accounts in a future accounting period.

Credit (increase) account 3241 with the amount of revenue received in a school year in advance of when due. Federal funds received in advance may be credited to this account until the amount of expenditures are determined, after which the applicable revenue account is credited and this account debited.

Debit (decrease) account 3241 at the beginning of the accounting period, particularly the beginning of a new fiscal year, with the amount of such recorded collections, which are now considered revenue of that accounting period, by crediting (increasing) the proper revenue accounts.

3243 RETURNABLE DEPOSITS

This account represents a liability for deposits received by the Food Service Fund as a prerequisite to providing services and/or goods.

Credit (increase) account 3243 with monies received from individuals and organizations as security for supplies and equipment furnished.

Debit (decrease) account 3243 with the amount of the deposits returned to individuals and organizations after the condition of the deposit is honored and with the amount of the deposits taken in as revenue when the condition of the deposit is not honored.

3280 DEFERRED INCOME

This is a credit balance and represents the full sales value of tickets, either on hand or already sold, for which no meals have yet been served. Account 3280 is offset by the Ticket Value Account (3180).

3300 EQUITY AND EQUITY RESERVE ACCOUNTS

Equity and Equity Reserve accounts reflect the equity of the school system in the assets of the fund. They identify and set apart those components of equity which are restricted or earmarked and thus are not available for appropriation from the balance which is available for appropriation.

3374 NET INVESTMENT IN FOOD SERVICE EQUIPMENT

This account represents the net amount (account number 3174 less account number 3375) of Food Service Fund monies that have been invested in equipment.

When equipment is purchased, account 3374 is increased (credited) and account 3390-Fund Balance is decreased (debited).

This entry is part of the compound journal entry that must be made when equipment is purchased. (See account 3174 for an example of the accounting entry)

At the end of an accounting period, account 3374 is decreased (debited) by the amount of expense charged to account number 0941-Equipment Depreciation - Non Federally Funded and/or account number 0942-Equipment Depreciation - Federally Funded in the accounting period.

When equipment is sold or scrapped debit (decrease) account 3374 by the net value of the equipment sold. (cost of equipment less accumulated depreciation)

Example: A truck is sold for $2,000.00. The truck had a cost of $8,000.00 and the accumulated depreciation at the date of sale was $7,000.00.

Dr.	3111	Cash	$2,000.	
Dr.	3375	Accumulated Depreciation	$7,000.	
Dr.	3374	Net Investment in Food Service Equipment	$1,000.	
Cr.	3174	Food Service Equipment		$8,000.
Cr.	2044	Sale of Surplus Equipment		$2,000.

3375 ACCUMULATED DEPRECIATION - FOOD SERVICE EQUIPMENT

This is a contra asset account (defined as an account shown as a deduction from the asset to which it relates in the Balance Sheet); an account which shows the sum of all amounts taken as depreciation on the asset up to the Balance Sheet date.

Account 3375 is credited at the end of each accounting period and account number 0941-Equipment Depreciation - Non Federally Funded and/or 0942-Equipment Depreciation - Federally Funded is debited.

When a piece of equipment is sold or scrapped, account 3375 is debited for the total amount of accumulated depreciation applicable to that piece of equipment; therefore, in order to insure total accuracy, school systems should maintain

detailed records on individual pieces of equipment.

On the balance sheet, account 3375 would be reflected in the asset portion as an offset against account 3174-Food Service Equipment.

3390 FUND BALANCE OR (DEFICIT)

This is normally a credit balance account representing the excess of the assets of the Food Service Fund (exclusive of equipment) not segregated for a specific purpose over the fund's liabilities.

The Fund Balance of a fund is not synonymous with Cash nor with the sum of Cash and one or more of the liquid assets of a fund; i.e., Petty Cash and Investments. As a matter of fact, this account may reflect that the fund is in a deficit position even though cash and other liquid assets are on hand. If the sum of the liabilities, reserves and equity reservations exceed the sum of the assets of the fund or fund group, this account will have a debit rather than a credit balance. A debit balance is reflected on the balance sheet or statement of financial position by enclosing the entry in parentheses.

Account 3390 is established upon recording the initial fund assets, liabilities and surplus or (deficit) balance as determined by audit. Subsequently, this account is credited (increased) or debited (decreased) with transactions which directly affect its balance; however, the results of operations are not reflected in this account until the end of the fiscal year when the budgetary and operating accounts are closed.

Account 3390 is credited (increased) throughout the fiscal year with transactions which directly increase the unsegregated portion of the balance of a fund and at the end of the fiscal year with the residual credit balance, if any, in account 3590-Budgetary Clearance.

Account 3390 is debited (decreased) throughout the fiscal year with transactions which directly decrease the unsegregated portion of the balance of a fund and at the end of the fiscal year with the residual debit balance, if any, in account 3590-Budgetary Clearance.

3400 OPERATING ACCOUNTS

Operating accounts reflect actual operations under a budget plan and control the clerical accuracy of the postings to the detailed accounts of the Subsidiary Revenue and Expenditure Ledgers. In contrast with the asset, liability and equity accounts which reflects a status or balance as of a given date but have no fiscal year identity, the operating accounts are identified with the fiscal year which they serve and are opened at the beginning of the fiscal year served and closed at its end.

3410 REVENUE RECEIVED

This account represents the sum of the revenue received in a fiscal year from local, state and federal sources. As a matter of accounting convenience, refunds of prior year expenditures are accounted for as revenue receipts, but refunds of current year expenditures are treated as offsets against the previously recorded expenditures. Except for certain special purposes, such as measuring the extent to which the cafeteria program is self-supporting, revenues are accounted for when received rather than when earned.

The General Ledger account 3410-Revenue Received is a control account. It is a summary of the individual postings to the detailed accounts of its' Subsidiary Revenue Ledger. At any time the sum of the postings to the Subsidiary Revenue Ledger should equal the balance in the General Ledger control account.

A new General Ledger account for revenue received is opened at the beginning of each fiscal year and closed at the end. The closing entry is a debit (decrease) in the amount of the credit balance and a corresponding credit (increase) to the General Ledger account 3590-Budgetary Clearance.

Account 3410 is credited (increased) with the amount of revenue received, whether in the form of cash or noncash revenues. The credit entry is usually a summary posting of the total of the amounts previously recorded in the Cash Receipts Journal as credits (increases) to the detailed revenue receipts accounts, but may be a separate posting of a single entry from the General Journal.

Account 3410 is debited (decreased) with the amount of previously recorded revenue which is refunded in the same fiscal year and with the amount of checks returned unpaid by the depository.

3420 EXPENDITURES

This account represents the sum of the expenditures made in a fiscal year against the appropriations provided in the budget. Except for the year of transition from cash to accrual basis accounting, expenditures should be recorded on a consistent basis from year to year and the appropriations should be made correspondingly. Refunds of current year receipts <u>are not</u> accounted for as expenditures, but as offsets against the previously recorded revenue received; refunds of prior year receipts, on the other hand, <u>are</u> accounted for as expenditures in the 1300 series-Debt Service function.

The General Ledger account 3420-Expenditures is a control account. It is a summary of the individual postings to the detailed accounts of its' Subsidiary Expenditure Ledger. At any time the sum of the postings (except for accounts 0941, 0942 and 1247) to the Subsidiary Expenditures Ledger should equal the balance in the General Ledger control account. Expenditures are normally entered in the first instance in a Voucher or Accounts Payable Journal or Register from which separate postings are made to the various Subsidiary Ledger accounts and a summarized posting to the General Ledger control account number 3420-Expenditures. There may be occasion for cash payment of expenditure bills in which case the posting would probably be a separate account.

Many vouchers are recorded and checks written which are not chargeable as expenditures. Examples would be entries recorded or checks written to liquidate liabilities, to purchase investments, to advance cash to other funds or governmental units. Because all entries or disbursements are not chargeable to expenditures each entry or check written must be analyzed to determine the appropriate charge. Only expenditures chargeable against appropriations are recorded in this account and in the detailed accounts of the Subsidiary Expenditure Ledger.

A new General Ledger account for expenditures is opened at the beginning of each fiscal year and closed at its end. The closing entry is a credit (decrease) in the amount of the debit balance and a corresponding debit (decrease) to the General Ledger account 3590-Budgetary Clearance.

Account 3420 is debited (increased) with the amount of the charges recorded in the accounting records as expenditures, (except equipment and depreciation) whether paid or unpaid. This debit entry may be a separate posting of a single entry or a summarized posting of total amounts recorded as expenditures in the various accounting journals.

Account 3420 is credited (decreased) with refunds and other abatements which are applied as offsets to the previously recorded expenditures of the current fiscal year.

The debit balance in account 3420 represents at any time the sum of expenditures charged to date, excluding charges for depreciation and equipment expenditures.

3500 BUDGETARY ACCOUNTS

Budgetary accounts are the accounts of a fund used to record the estimated revenues and authorized appropriations and to control operations according to the limitations and provisions of the approved budget. Budgetary accounts record estimates of operations set up as guides and controls for the actual operations.

3510 ESTIMATED REVENUE

This account represents the sum of the revenue anticipated by the Food Service Fund from all sources in the fiscal year. Estimated revenue is the most accurate account that can be predicted for a given period, usually one fiscal year. In any given fund the budgetary account; Estimated Revenue, must be on the same basis as its corresponding operating account, Revenue Received. If revenue is to be accounted for when received rather than when earned, it is to be estimated or budgeted correspondingly.

General Ledger account 3510-Estimated Revenue is a control account. It is a summary of the postings to the subsidiary account of the estimated amount listed in the budget for each source and type of revenue. At all times the sum of the debit balances in the detailed estimated revenue accounts must equal the summary debit balance in account 3510. During the course of the fiscal year, actual revenue received may exceed estimated revenue; however, if this occurs change is not required in the estimated revenue accounts. In addition, the estimated revenue accounts pertain to revenue receipts only and do not include nonrevenue receipts or receipts which offset expenditures.

In addition to maintaining a ledger page in the General Ledger, estimated revenue is also recorded on the Revenue Received Ledger page and in the Subsidiary Revenue Ledger. The difference between Estimated Revenue and Revenue Received is the revenue unrealized to date.

A new General Ledger account for Estimated Revenue is opened at the beginning of each fiscal year and closed at its end.

This account is usually debited (increased) only at the beginning of the fiscal year with the sum of the revenue estimates listed in the adopted budget, but is also debited (increased) during the fiscal year if the budget is subsequently revised to include additions to estimated revenue not previously budgeted. Account 3590-Budgetary Clearance is credited (increased) correspondingly.

Account 3510 is not usually credited (decreased) during the fiscal year, but when closed at the end of the fiscal year, it is credited (decreased) in the full amount of the debit balance. Account 3590-Budgetary Clearance is debited (decreased) correspondingly.

3520 APPROPRIATIONS

This account represents the sum of the appropriations made to date against the resources of the Food Service Fund in a fiscal year. An appropriation is an authorization by the school board to incur expenditures for the purpose described to the limit of an amount specified. The appropriations of a given

year should be in an amount sufficient to permit charging all obligations as expenditures for the fiscal year benefited, excluding depreciation of the Food Service Fund.

The General Ledger account 3520-Appropriations is a control account. It is a summary of the postings to the detailed accounts of the subsidiary ledger in which the appropriations are listed by specific purposes. Appropriations are also shown on each Expenditure Ledger page in both the General Ledger and the subsidiary ledger. The difference between appropriations and the actual expenditures is the unexpended balance of the appropriation.

Transfers between appropriation accounts are recorded in the first instance in the General Journal, then posted to the accounts in the Subsidiary Expenditure Ledger. If the budgetary account is maintained in a single column on the subsidiary ledger page, a marginal notation of the transfer should be made on the ledger page as a convenient reference. Transfers between detailed appropriation accounts also require prior approval of the appropriate authority in accordance with the policy established by the board of school directors. Transfers between the detailed appropriation account of the subsidiary ledger do not affect the General Ledger control account 3520-Appropriations unless an additional appropriation or an increase in one appropriation without a corresponding decrease in another is involved. At all times the sum of the credit balances in the detailed appropriation accounts must equal the summary credit balance in account 3520.

A new General Ledger account for appropriations is opened at the beginning of each fiscal year and closed at its end.

Account 3520 is credited (increased) at the beginning of the fiscal year with the sum of the appropriations authorized in the adopted budget, but is also credited (increased) during the fiscal year if the school board authorized additional appropriations or increases existing appropriations. Account 3590-Budgetary Clearance is debited (decreased) accordingly.

Account 3520 is not usually debited (decreased) during the fiscal year, but when closed at the end of the fiscal year, it is debited (decreased) in the full amount of the credit balance. Account 3590-Budgetary Clearance is credited (increased) accordingly.

3530 ENCUMBRANCES AND RESERVE FOR ENCUMBRANCES

Two General Ledger control accounts, 3531-Encumbrances and 3532-Reserve For Encumbrances, are needed to record the commitments issued against the appropriation of a fund. The encumbrances procedure is an essential step in accounting for and controlling expenditures. The purpose of an encumbrance is to earmark a part of an appropriation at the time of commitment in order to assure that monies will be available to cover the expenditure when the goods are delivered or the services rendered. Obligations resulting from purchase orders, contracts and other types of commitments are anticipated liabilities which later become real liabilities chargeable against an appropriation. It is essential to good management and budgetary control to record expenditure commitments that are to be paid later from fund resources.

Encumbrance transactions should be recorded in the following manner:

1) Account 3531-Encumbrances should be debited with the estimated cost of orders placed and contracts negotiated and Account 3532-Reserve for Encumbrances credited.

2) When an invoice covering an order or contract so recorded is received and ready to charge as an expenditure or the commitment is cancelled, a reversing entry should be made by debiting Reserve for Encumbrances and crediting Encumbrances with the amount previously recorded in these accounts.

3) At the same time, the actual amount of the invoice, which may differ from the estimated amount, should be debited to Expenditures and credited to Accounts Payable.

4) When the invoice is paid, Accounts Payable should be debited and Cash credited.

5) If the invoice is paid at the time of recording the expenditure, the credit and debit to Accounts Payable may be omitted.

Additional information concerning encumbrance accounting, including alternative procedures, is presented in the following description of these two General Ledger control accounts.

3531 ENCUMBRANCES

This account represents the sum of the open balances of purchase orders, contracts, agreements and other commitments outstanding against the appropriations of a given fund.

When encumbrances are recorded and liquidated in the accounting records, the subsidiary ledger reflects three accounts in separate columns on the same ledger page. These accounts, each of which may be increased or decreased, are:

1) the appropriation account - which has a credit balance
2) the expenditure account - which has a debit balance
3) the encumbrance account - which has a debit balance

Stated in another way, each transaction must be identified in order to indicate the account affected. Usually, this identification is accomplished by columnar segregation, but occasions may arise when transactions have to be coded by number or identified by abbreviation as to the account affected such as Ap for appropriations, En for encumbrances and Ex for expenditures.

The subsidiary ledger used to record expenditures is commonly referred to as the Expenditure Ledger, but it is in reality an Appropriation-Expenditure Ledger because appropriations are also shown on the ledger pages. When encumbrances are added, the subsidiary ledger becomes an Appropriation-Encumbrance-Expenditure Ledger, but is commonly referred to as an Encumbrance and Expenditure or an E and E Ledger and the fact that appropriations are also shown on the ledger is understood, but not expressed.

In addition to the debit or credit balance of each of the accounts maintained on a ledger page, the difference between the credit balance accounts is also shown. When expenditures only are kept or noted, the difference is the Unencumbered Balance. The Unexpended or Unencumbered Balance is not an account, but a statistic which is derived from the accounts.

Encumbrances should be carried in the ledger accounts in a formal manner at four successive levels of control, namely:

1) subsidiary ledger by function, object and program
2) subsidiary ledger by function, object
3) subsidiary ledger by function
4) General Ledger by fund

As a minimum, encumbrances should be entered in the subsidiary ledger by function and in the General Ledger by fund as of the end of every month and reported to the school board on the interim balance sheet. The sum of the debit balance of the encumbrance accounts in the subsidiary ledger must always equal the summary debit balance in the General Ledger control account 3531-Encumbrances.

A new General Ledger account for Encumbrances is opened at the beginning of each fiscal year and closed at its end. The closing entry is a credit (decrease) in the full amount of the debit balance and a corresponding debit (decrease) to the General Ledger account 3590-Budgetary Clearance. When the books for the succeeding fiscal year are opened, account 3531 is established again by reversing the closing entry.

Account 3531 is debited (increased) with the sum of the encumbrances placed when commitments are made such as purchase orders, contracts, service agreements and so forth; and Reserve for Encumbrances is credited (increased) accordingly.

Account 3531 is credited (decreased) with the sum of the encumbrances liquidated when the encumbered obligations are charged as expenditures or cancelled; Reserve for Encumbrances is debited (decreased) accordingly.

3532 RESERVE FOR ENCUMBRANCES

This account represents the sum of the open balances of purchase orders, contracts, agreements and other commitments outstanding against the resources of a given fund.

The credit balance in the Reserve for Encumbrances account should always equal the debit balance in the Encumbrances account except at the end of the fiscal year when the Encumbrances account is closed to Budgetary Clearance. At this time the Reserve for Encumbrances account is shown as an equity reserve account on the end-of-the-year balance sheet and reflects the sum of the commitments brought forward. When the books for the new fiscal year are opened, the Reserve for Encumbrances account reverts to its nature as a budgetary account and corresponds to the reestablished Encumbrances account.

The information used to support the entries to account 3531-Encumbrances is also used to support entries to this account. For convenience of record keeping, the credit balance which is brought forward from the preceding fiscal year may be entered on a new ledger page coded with the new fiscal year.

Account 3532 is credited (increased) with the sum of the encumbrances placed when commitments are made and account 3531-Encumbrances is debited (increased) accordingly.

When encumbrances are liquidated or cancelled, account 3532 is debited (decreased with the exact amount encumbered and account 3531-Encumbrances is credited (decreased) accordingly.

3590 BUDGETARY CLEARANCE

This General Ledger account is used during the fiscal year to record the budgetary resources and obligations of the current year separate from the fund balance of the preceding year.

The balance in account 3590 represents at any time the difference between estimated revenues and appropriations of the current fiscal year. A debit balance indicates that expenditure authorizations exceed estimated revenue and reflects a potential budgetary deficit that must be met either from new revenue sources not yet authorized or from the fund balance available at the beginning of the fiscal year.

A new General Ledger account for Budgetary Clearance is opened at the beginning of each fiscal year and closed at its end. At the end of the fiscal year, the balances of all operating and budgetary accounts, except Reserve for Encumbrances, are closed to Budgetary Clearance and the residual debit or credit balance in Budgetary Clearance is then closed to the General Ledger account 3390-Fund Balance.

This account is credited (increased) with the sum of the estimated revenue shown in the budget as adopted and with any additional amounts of estimated revenue subsequently incorporated into the budget.

This account is debited (decreased) with the sum of the appropriations made for the current year and with the sum of the encumbrances brought forward from the preceding year. It is also debited (decreased) with the sum of additional appropriations subsequently incorporated into the budget.

CHART OF STANDARD REVENUE ACCOUNTS

FOOD SERVICE FUND

CHART OF STANDARD REVENUE ACCOUNTS

2000 REVENUE FROM LOCAL SOURCES

2041 EARNINGS FROM TEMPORARY DEPOSITS & INVESTMENTS
2043 GIFTS, REQUESTS AND EARNINGS FROM ENDOWMENTS
2044 SALE OF SURPLUS EQUIPMENT
2049 MISCELLANEOUS REVENUE
2061 SALES TO PUPILS
2062 SALES TO ADULTS
2063 A LA CARTE SALES
2064 INCOME FROM SPECIAL EVENTS
2065 NONCASH CONTRIBUTIONS
2069 PRICE REDUCTION FOR REDUCED PRICE AND FREE MEALS

2100 REVENUE FROM STATE SOURCES

2161 SUBSIDIES FOR FOOD AND NUTRITION PROGRAMS

2200 REVENUE FROM FEDERAL SOURCES

2261 SUBSIDIES FOR SCHOOL MILK, LUNCH AND BREAKFAST PROGRAMS
2262 SUBSIDIES FOR NON FOOD ASSISTANCE
2263 VALUE OF DONATED COMMODITIES OR CASH IN LIEU OF DONATED COMMODITIES RECEIVED FROM FEDERAL SOURCES

2300 REFUNDS OF PRIOR YEARS' EXPENDITURES

2500 INTER FUND TRANSFERS

2561 CONTRIBUTIONS FROM GENERAL FUND - REGULAR
2562 CONTRIBUTIONS FROM GENERAL FUND - UNDERNOURISHED CHILDREN
2563 CONTRIBUTIONS FROM GENERAL FUND - NONCASH
2564 CONTRIBUTIONS FROM GENERAL FUND - EQUIPMENT

FOOD SERVICE FUND REVENUE ACCOUNTS

DEFINITIONS AND DESCRIPTIONS

Introduction

This section of the manual contains definitions and descriptions of the accounts pertaining to Food Service Fund Revenues which are classified as to source. Revenues are accounted for in this series of accounts; nonrevenue receipts are recorded in the Balance Sheet accounts or, where applicable in the subsidiary ledger, as off-sets to the expenditure accounts.

Classification of Food Service Fund Revenue Sources

Following the general outline of the Federal recommendations concerning revenue as set forth in Federal Handbook II Revised, 1973, CLASSIFICATIONS AND STANDARD TERMINOLOGY FOR LOCAL AND STATE SCHOOL SYSTEMS, revenue is classified and coded as follows:

2000 REVENUE FROM LOCAL SOURCES
2100 REVENUE FROM STATE SOURCES
2200 REVENUE FROM FEDERAL SOURCES
2300 REFUNDS OF PRIOR YEARS' EXPENDITURES
2500 INTER FUND TRANSFERS

Each series of revenue accounts is introduced with a general explanation of the kinds of revenue which fall within the classification, and each revenue account contains a detailed description of what types of receipts are credited to the revenue account.

Definition of Revenue

The National Committee on Governmental Accounting defines revenue as "additions to assets which do not increase any liability, nor represent the recovery of an expenditure, and the cancellation of liabilities without a corresponding increase in other liabilities or a decrease in assets". In school accounting this refers to local, state and federal sources of cash or cash equivalent item as well as other transactions which result in benefits to the school system.

Definition of Nonrevenue Receipts

Nonrevenue Receipts is a term which refers to cash or noncash items received in a transaction which either decreases another asset, or increases liabilities. In the Pennsylvania school accounting system, nonrevenue receipts are not accounted for in the REVENUE ACCOUNTS, but rather are accounted for on the BALANCE SHEET or as off-sets to Expenditure Accounts.

An example of receipts which produce cash, but not revenue, and are therefore classified a nonrevenue receipts and are accounted for on

the BALANCE SHEET, rather than in a REVENUE ACCOUNT, are Temporary Loans. Temporary Loans produce cash receipts, but not revenues, because they give rise to corresponding liabilities of the Food Service Fund. In addition to Temporary Loans, there are several other forms of cash receipts which do not produce revenues, and therefore are accounted for as BALANCE SHEET ACCOUNTS. The majority of these other forms of nonrevenue receipts are changes in the form of a liquid asset from other than cash to "Cash". The sale of investments, for example, reduces the asset "Temporary Investments," and increase the asset "Cash". As the transaction changes the form of an asset from one kind to another, the cash received from the proceeds of the sale is a nonrevenue receipt, to the extent that such proceeds represent the return of the purchase price of the investment. What is earned on the investment is a revenue receipt.

Other receipts which produce cash but are not considered Revenue are refunds or returns of money previously disbursed and charged to an Expenditure Account. These receipts off-set the applicable Expenditure Account rather than add to a Revenue Account. Amount the transactions which are handled in this manner are duplicate payments, overpayments, premium refunds or dividends, personal phone charges, and restitution for damages to, or destruction of school property. The Expenditure Accounts are off-set by these types of receipts even if a receipt, in some situations, precedes the disbursement of cash. However, when some of these types of receipts are received because of a disbursement that was charged to a prior year's Expenditure Account, such receipts are considered Revenue and classified as Refunds of Prior Years' Expenditures, (unless applicable to an annual recurring expense, such as Insurance Premiums). When applicable to recurring expenses, such receipts are recorded as an off-set to the current Expenditure Account even though the refunded Expenditure was made in a prior fiscal year.

Accounting Procedure Described in a Separate Section of the Accounting Manual

Although the explanations of the revenue classifications and the descriptions of the revenue accounts contain some reference to the accounting procedures, these references are made to illustrate the nature of the accounts, rather than to describe the accounting system. The accounting procedures are described in the BALANCE SHEET section of the Manual.

REVENUE FROM LOCAL SOURCES

2000 Series

REVENUE FROM LOCAL SOURCES is revenue produced within a school system, which is available for use by the Food Service operations of the school system.

GENERAL TYPES OF REVENUE FROM LOCAL SOURCES

The following accounts are provided for recording revenue from local sources other than from the sale of food; such remaining revenue includes earnings from time deposits, and receipt from certain other local sources as explained in the descriptions of the accounts themselves. These types of revenue are of a general nature and are also sources of revenue for other funds in the school system.

2041 EARNINGS FROM TEMPORARY DEPOSITS AND INVESTMENTS

Credit to this account the interest earned on temporary deposits, and the excess of the sales price over the purchase price of temporary investments.

Do not credit to this account earnings from permanent funds and endowments; they are recorded in Account 2043 of the Food Service Fund, or in the appropriate account of the Trust Fund established by the school system for such endowments.

2043 GIFTS, BEQUESTS, AND EARNINGS FROM ENDOWMENTS

Credit to this account revenue received from a philantropic foundation, private individuals, and private organizations for which no repayment or special service is expected, and also for revenue received as earnings from endowments held by the Food Service Fund of the school system. Also credit to this account amounts transferred to the Food Service Fund from a Trust Fund in fulfillment of the terms of an endowment.

2044 SALE OF SURPLUS EQUIPMENT

Credit to this account proceeds received from the sale of Food Service equipment. Amounts received from trade-in items are <u>not</u> to be classified as sale of surplus equipment but used to decrease the cost base of the equipment purchased.

2049 MISCELLANEOUS REVENUE

Credit to this account miscellaneous revenue received from local sources which does not off-set an expenditure, and for which a particular account in the 2000 series is not provided.

Deposits and other fees subject to be returned are not recorded in this account; such deposits or fees create liabilities which are recorded in the BALANCE SHEET Account 3243-RETURNABLE DEPOSITS.

REVENUES FROM FOOD SALES

The following revenue accounts are used to record revenue resulting from the sale of food by a school system's food service operations. These revenue accounts are classified in accordance with USDA FNS (CN) INSTRUCTION 796-1 (rev. 2) in order to facilitate the preparation of Food & Nutrition Reimbursement vouchers.

2061 SALES TO PUPILS

Credit to this account revenue received from pupils for the sale of food products and services.

Do not credit to this account revenue received from pupils for the sale of food items that are considered a la carte. The revenue from these sales should be credited to account number 2063-A La Carte Sales.

2062 SALES TO ADULTS

Credit to this account revenue received from adults for the sale of food products and services.

Do not credit to this account revenue received from special affairs held at cafeterias. The revenue from these events should be credited to account number 2064-Income from Special Events.

2063 A LA CARTE SALES

Credit to this account revenue received from pupils for food items that are separately priced from the Type A meal. Include in this account, Type A components that are sold individually.

2064 INCOME FROM SPECIAL EVENTS

Credit to this account revenue received by the food service operations for catering special dinners or events held in the cafeteria of a school system.

2065 NONCASH CONTRIBUTIONS

Credit to this account the value of services donated to the food service programs during the accounting period.

When this account is credited there should be a corresponding debit made to account 0956-Donated Services.

2069 PRICE REDUCTION FOR REDUCED PRICE AND FREE MEALS

This is a debit balance account representing the value of reductions in gross sales on free and reduced price meals served to pupils during the accounting period.

Account 2069 would be used only if a district recorded sales to pupils in gross. The following is an example of how this account would be used.

A cafeteria serves one thousand (1000) meals at $0.50 per meal. Eight hundred (800) of the students pay full price for their meal and two hundred (200) are given free meals under the school milk and lunch program.

a. If a district records sales in gross, the following entry would be made:

Dr	3111	Cash	400	
Dr	2069	Price Reduction for Reduced Price and Free Meals	100	
Cr	2061	Sales to Pupils		500

b. If a district records sales in net, the following entry would be made:

Dr	3111	Cash	400	
Cr	2061	Sales to Pupils		400

REVENUE FROM STATE SOURCES

2100 Series

REVENUE FROM STATE SOURCES is considered money originating from State appropriations only and will be recorded in this series of accounts. Money distributed by the State but originating from the Federal Government will be recorded in the 2200 series of accounts.

Because some subsidies or reimbursements contain a mixture of both State and Federal monies, some 2100 series accounts are duplicated in the 2200 series of accounts. The Department of Education will indicate on the Claim Reimbursement Report (Form SMT 465) the amount to be recorded in the State and Federal source revenue accounts. The following account codes, account titles, and brief account descriptions are provided to aid in budgeting and financial reporting:

2161 SUBSIDIES FOR MILK, LUNCH AND BREAKFAST PROGRAMS

Credit to this account revenue received from the Commonwealth as reimbursement for expenditures incurred in Food and Nutrition Programs.

REVENUE FROM FEDERAL SOURCES

2200 Series

REVENUE FROM FEDERAL SOURCES is considered money originating from the Federal Government and is made available to the school district through direct grants, state channels, or other agencies conducting programs through the school district.

The following account codes, account titles, and brief account descriptions have been provided to aid in budgeting and financial reporting:

2261 SUBSIDIES FOR MILK, LUNCH AND BREAKFAST PROGRAMS

Credit to this account revenue received through the Commonwealth and designated as Federal Funds for reimbursement of expenditures incurred in Food and Nutrition Programs.

Do not credit to this account any subsidies received for Food Service equipment. Those subsidies are credited to Account 2262.

2262 SUBSIDIES FOR NON FOOD ASSISTANCE

Credit to this account revenue received through the Commonwealth and designated as Federal Funds for Food Service equipment.

2263 VALUE OF DONATED COMMODITIES OR CASH IN LIEU OF DONATED COMMODITIES RECEIVED FROM FEDERAL SOURCES

Credit to this account the market value of all commodities donated to the food service fund by the Federal government and the amount of cash in lieu of donated commodities received from the Federal government during the accounting period.

When a credit is made to account 2263 as a result of receiving donated commodities, a corresponding debit must be made to the expenditure account 0924 - DONATED COMMODITIES.

When a credit is made to account 2263 as a result of receiving cash in lieu of commodities, a corresponding debit must be made to account 3111 cash.

When the food is purchased with the funds received from the Federal government, account 0924 - DONATED COMMODITIES is debited and either account 3111 or 3212 is credited.

REFUNDS OF PRIOR YEARS' EXPENDITURES

2300 Series

Definition of Refunds

Refunds are receipts of cash returning all or part of an expenditure normally considered the obligation of the School System. Refunds received in a fiscal year after the expenditures were made are called Refunds of Prior Years' Expenditures. Refunds received in the same fiscal year in which the expenditures were made are called Current Refunds. Returns of cash which have been previously disbursed, but were not for expenditures as defined, do not come under the definition of Refunds for school accounting purposes.

Accounting for Refunds of Prior Years' Expenditures

After the accounting records are closed at the end of a fiscal year and a financial report has been prepared, subsequent refunds applicable to any previous fiscal year may be considered Revenue of the new fiscal year and should be recorded in Account number 2300.

2300 - Refunds of Prior Years' Expenditures

Credit this account with the amount of refunds of prior years' expenditures.

Do not credit this account with current refunds.

Do not credit this account with Recoverable Disbursements: (See Accounting for Recoverable Disbursements in the Balance Sheet section of the Manual.)

Accounting for Current Refunds

Refunds of current year expenditures are not considered revenue. Such refunds are recorded as a decrease, reduction, or credit to the current expenditure accounts. Examples of receipts received by school systems which are treated as current refunds include:

(1) Refund for duplicate payment of an invoice;
(2) Refund for the amount of overpayment of an invoice including tax amounts paid in error and cash discounts returned;
(3) Refund for the amount of overpayment on salaries;
(4) Payments of restitutions and damage by students or others for damage or loss of school property;
(5) Refunds of insurance premiums or dividends paid in cash;
(6) Receipts from the sale of supplies and materials to students and others;
(7) Refunds for return of containers, oil drums, etc.;
(8) Receipts from the sale of equipment in lieu of trade-in;
(9) Reimbursement for utility use; such as, personal phone calls, use of electricity, fuel and water by contractors, etc.

INTER FUND TRANSFERS

2500 Series

INTER FUND TRANSFERS may be defined as revenue received by a fund from other fund in the school system. By separating INTER FUND TRANSFERS from other revenue, the identity of such revenue is clearly established in the accounts and reports.

In recording revenue, it is necessary to note and observe the distinction between INTER FUND TRANSFERS and receipt of other monies recorded in Balance Sheet Account 3221 - Due to Other Funds. This distinction depends upon the intent of the transfer. If for example, the General Fund provides, either in the form of cash or noncash contributions, operating funds to the Food Service Fund and the funds are considered a contribution, then the Food Service Fund would record the funds as revenue and the General Fund would record the payment as an expenditure.

If, however, the General Fund provides, either in the form of cash or noncash contributions, operating funds to the Food Service Fund and the funds are considered a loan, then the Food Service Fund would record the funds against the liability account 3221 - Due to Other Funds and the General Fund would record the loan as a receivable against account 3121 - Due From Other Funds.

The intent of the transfer should be established at the time the transfer is made.

2561 CONTRIBUTIONS FROM THE GENERAL FUND - REGULAR

Credit to this account transfers of money from the General Fund to the Cafeteria Fund for support of the food service operation. Monies transferred cannot be returned (see Section 504 of the School Code).

Do not use this account to record the transfer of money to be used for the acquistion of equipment; such revenue should be recorded in Account 2564.

2562 CONTRIBUTIONS FROM THE GENERAL FUND - UNDERNOURISHED CHILDREN

Credit to this account revenue received from the General Fund for feeding undernourished or underpriviledged children at reduced rates or without cost at the request of the Board of School Directors.

2563 CONTRIBUTIONS FROM THE GENERAL FUND - NONCASH

Credit to this account the value of noncash contributions made by the General Fund to the Food Service Fund to support the Food Service Operations.

When a credit is made to Account 2563, a corresponding debit must be made to the appropriate expenditure account in the Food Service Fund.

2564 CONTRIBUTIONS FROM THE GENERAL FUND - EQUIPMENT

Credit to this account money transferred from the General Fund to the Food Service Fund for the purchase of equipment used in the food service operations.

CHART OF STANDARD EXPENDITURE ACCOUNTS

FOOD SERVICE FUND

CHART OF STANDARD EXPENDITURE ACCOUNTS

0800 FIXED CHARGES

- 0831 SCHOOL SYSTEM CONTRIBUTIONS TO EMPLOYEE RETIREMENT
- 0832 SCHOOL SYSTEM SHARE OF SOCIAL SECURITY TAXES
- 0833 COMPENSATION INSURANCE
  - 0833.1 WORKMEN'S COMPENSATION INSURANCE
  - 0833.2 UNEMPLOYMENT COMPENSATION INSURANCE
- 0834 EMPLOYEE INSURANCE
- 0836 OTHER INSURANCE

0900 FOOD SERVICE

- 0910 SALARIES - FOOD SERVICE
- 0921 FOOD
- 0922 MILK
- 0923 NON FOOD SUPPLIES
- 0924 DONATED COMMODITIES
- 0931 UTILITIES
- 0932 TRAVEL
- 0933 TRAINING
- 0934 FOOD SERVICE RENTAL
- 0935 PRINTING AND ADVERTISING
- 0936 INDIRECT COSTS
- 0939 OTHER EXPENSES FOR FOOD SERVICE
- 0941 EQUIPMENT DEPRECIATION - NON FEDERALLY FUNDED
- 0942 EQUIPMENT DEPRECIATION - FEDERALLY FUNDED
- 0951 CONTRACTED SERVICE - LAUNDRY AND LINEN
- 0952 CONTRACTED SERVICE - TRASH REMOVAL
- 0953 CONTRACTED SERVICE - EXTERMINATION
- 0954 CONTRACTED SERVICE - REPAIRS AND MAINTENANCE
- 0955 CONTRACTED SERVICE - PROFESSIONAL AND TECHNICAL SERVICES
- 0956 DONATED SERVICES

1200 CAPITAL OUTLAY

- 1247 EQUIPMENT

1300 DEBT SERVICE

- 1379 REFUNDS OF PRIOR YEARS' RECEIPTS

GENERAL FUND EXPENDITURE ACCOUNTS
Definitions and Descriptions

Introduction

This section contains definitions and descriptions of the accounts pertaining to Food Service Fund Expenditures which are classified by function and object.

Certain disbursements do not represent expenditures and are accounted for on the Balance Sheet. Refunds of current revenue is an example of a disbursement that is not an expenditure. It is recorded directly as an offset to the revenue account.

The principles of accrual accounting are recommended in recording expenditures.

Classification of Expenditure Accounts

As stated previously, accounts are classified by function and object. The numerical code designation of an account indicates the classification. For example, the first two numbers identify a function, the third identifies a major object, the fourth a minor object. Hence, a charge to account code 0921-Food:

0921 -

09 - Food Service (function)
2 - Materials and Supplies (major object)
1 - Food (minor object)

Classification by Function

Function relates to the purpose to be accomplished by expenditures. In the Food Service Fund these purposes have been identified and coded as:

0800 FIXED CHARGES
0900 FOOD SERVICE
1200 CAPITAL OUTLAY
1300 DEBT SERVICE

Each function is introduced with a definition and an explanation of types of expenditures which are included in that functional classification. The accounts listed under each function contain a description of what is chargeable to that account. To promote uniformity in the overall school accounting system, functions of the Food Service Fund have been given the same numerical coding as similiar functions in the General Fund. In an effort to designate clearly the purpose of each account, and to promote uniformity, certain account descriptions also explain what is not to be charged to that account.

Classification by Object

Classification of expenditures by object identifies the article purchased or the service obtained. Objects usually appearing in more than one function are classified as Major Objects. The identification of Major Objects in the accounting are constant throughout the functional classification.

Subdivisions of Major Objects are classified as Minor Objects. The identification of Minor Objects in the accounting code are not constant throughout the functional classification. Detailed posting to an account must correspond with the Major Object classification; for example, salaries must be posted under the Major Object "Salaries". The use of constant Major Objects facilitates financial analysis and planning whether the accounts are kept by hand or machine methods.

The Major Object expenditures are uniformly classified and coded as follows:

10 SALARIES - cost of personal services of permanent and temporary employees on the payroll of the district or Area Vocational-Technical School.

20 MATERIALS AND SUPPLIES - cost of commodities purchased.

30 EXPENSES - as a Major Object of expenditures, "Expenses" is used as a general term for the purpose of classifying under one heading costs of travel, utilities, insurance, rent, and so forth. The accounts coded under this classification in the various functions carry a further description.

40 EQUIPMENT - cost of equipment and recording of depreciation expense.

50 CONTRACTED SERVICES - cost of services resulting from a contract, such as services rendered by personnel who are not on the payroll of the district including all related expenses covered by the contract. The contract need not be written, for instance, a phone call for repair of an item would be classed as a verbal contract.

70 INTEREST AND OTHER DEBT SERVICE CHARGES - cost of current funds to retire indebtedness and to pay the interest thereon.

Minor Objects codes are not constant throughout the functions in the same manner as the Major Objects codes described above.

School Districts often require a further breakdown of accounts for their own use. These local breakdowns would also be considered nonuniform Minor Objects. For example: 0834 - Employees Insurance might be set up locally as 0834.1 to control the expense for Hospitalization Insurance paid by the Food Service Program, and 0834.2 could be used to control the expense of Life Insurance paid by the Food Service Program.

Noncash Expenses

Although expenditures normally result ultimately in cash disbursements, there are several types of noncash transactions which are rather common in Food Service Programs. Some examples are:

1) The General Fund paying for expenses related to the Food Service operation and not seeking reimbursement from the Food Service Fund for these expenditures.

2) Use of Donated Commodities and Services in the Food Service Program.

Transactions of this type must be recorded as a revenue and an expenditure. Details concerning noncash transactions are set forth in the applicable account descriptions.

Nonexpenditure Disbursements

The disbursement of cash does not in itself mean that a transaction should be recorded as an expenditure. Some common examples of nonexpenditure disbursements are:

1) Purchase of investments.

2) Repayment of temporary loans or notes.

3) Transfers to other funds or agencies not involving prior charges for goods or services. (Loans and advances)

The Standard Expenditure Accounts

The accounts which are classified and coded for each of the several expenditure functions are the standard accounts of the Uniform School Accounting System. Regardless of size and operation, school systems are expected to maintain the accounts shown in the classification if they incur costs for any of the purposes indicated in the individual account descriptions.

Because of difference in size and operation, it is not expected that a given school system will need all of the standard expenditure accounts. It is not necessary to maintain an account if costs are not incurred for the purpose indicated by the account.

Some districts keep records of expenditures in more detail than provided for in the standard classification of accounts. This may be accomplished by subdividing the standard accounts to meet the particular needs of the school system.

FIXED CHARGES
0800 Series

FIXED CHARGES are classified as a function and include expenses which are grouped together as a matter of accounting convenience rather than allocated to the operative function. Such charges, which include employer's contributions to retirement and social security as well as various kinds of insurance purchased by the Food Service operation for the protection of itself or for the benefit of its employees, are classifed as fixed charges.

Expenditures for public liability, property damage, medical care, collision on Food Service vehicles, fire, and theft insurance attributable to the FOOD SERVICE function are charged to the fixed charges function.

0831 SCHOOL SYSTEM CONTRIBUTIONS TO EMPLOYEE RETIREMENT

Charge to this account expenditures by the school system to the Public School Employees' Retirement Board as the school system's share of retirement contributions for persons employed in the Food Service Program.

Do not charge to account 0831 deductions from salaries for the employees' share of retirement contributions; such deductions are recorded as expenditures against appropriations when the payroll is charged in gross to the salary account of the Food Service function.

0832 SCHOOL SYSTEM SHARE OF SOCIAL SECURITY TAXES

Charge to this account expenditures by the school system to the Commonwealth of Pennsylvania Social Security Contribution Fund as the school system's share of social security taxes for employees of the Food Service Program.

Do not charge to this account deductions from salaries for the employees' share of the social security tax; such deductions are recorded in gross to the salary accounts of the Food Service function.

0833 COMPENSATION INSURANCE

Charge to this account payments for employee compensation coverage. This account will be subdivided as follows:

0833.1 WORKMEN'S COMPENSATION INSURANCE

Charge to this account expenditures for workmen's compensation insurance coverage of the employees of the Food Service Program.

0833.2 UNEMPLOYMENT COMPENSATION INSURANCE

Charge to this account expenditures for unemployment compensation insurance coverage of employees of the Food Service Program.

Local Educational Agencies, that do not have insurance coverage of any type and that use the direct reimbursement method for unemployment com-

pensation coverage, will charge to account 0833.2 reimbursements paid to the Commonwealth for unemployment compensation claims. Do not charge to account 0833.2 reimbursements paid to the Commonwealth for unemployment compensation claims if such costs will be recoverable from commercial insurance companies.

0834 EMPLOYEE INSURANCE

Charge to this account expenditures for life, sickness or accident, or other insurance (exclusive of workmen's compensation insurance) coverage extended by the school system as an employee benefit.

When employee contributions to group plans of insurance are collected by check or cash from the employees or through payroll deduction, the receipt and disbursement of such amounts are accounted for through a Balance Sheet. liability account or an applicable Trust and Agency Fund of the school system.

0836 OTHER INSURANCE

Charge to this account expenditures for property damage, automotive and other liability insurance purchased.

FOOD SERVICE
0900 Series

FOOD SERVICE is classified as a function and includes activities which have as their purpose the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

Accounting for FOOD SERVICE should be accomplished within the FOOD SERVICE FUND. Support from the General Fund should be limited to transfers of money or noncash contributions. The degree by which the General Fund supports the Food Service Fund varies throughout the Commonwealth; for example, in some school systems, the FOOD SERVICE program may be self-supporting; in others, it may require regular assistance from the General Fund. As a matter of local policy, assistance may be extended through the assumption by the General Fund of certain salaries and other obligations however, this support should be viewed as a transfer of money and/or noncash services to the Food Service Fund and accounting should be accomplished in both funds.

The intent of any transfer should be established at the time the transfer is made; that is, defining whether the transfer represents a contribution or a loan to the Food Service Fund. (See Revenue account 2500 for more detail)

Equipment obtained by the Food Service Fund should be capitalized and not expensed as done by other funds in the school system. This is done because there is a need for the Food Service Fund to match current costs with current revenues. Depreciation expense is charged in the Food Service Fund; however, a special method is used to close out the depreciation expense account and the Capital Outlay Expenditure account. See instructions under account 0941-Equipment Depreciation Cost - Non Federally Funded and account 1247-Equipment.

0910 SALARIES - FOOD SERVICE

Charge to this account, the total amount of salaries earned by Food Service Fund employees. This includes the salaries of Food Service directors, cooks, kitchen help and any other person employed by the school system who performs only duties related to Food Service operations.

If the salary of any Food Service employee is paid by the General Fund, at the end of the accounting period the Food Service Fund should credit Revenue account 2563-Contribution From the General Fund-Noncash and charge account 0910 for the amount of salaries paid by the General Fund.

0921 FOOD

Charge to this account the cost of all food purchased during the period (except milk), including processing, storage, handling and transportation costs for food.

At the end of the accounting period, the beginning food inventory is added (debited) to account 0921. The ending food inventory is subtracted (credited) from that sum to determine the cost of food used.

0922 MILK

Charge to this account the cost of all milk purchased during the accounting period, including the cost of storage, handling, and transportation.

At the end of the accounting period, the beginning milk inventory is added (debited) to account 0922. The ending milk inventory is subtracted (credited) from that sum to determine the cost of milk used.

0923 NON FOOD SUPPLIES

Charge to this account the cost of all lunch room supplies (trays, silverware, food preparation and packaging supplies, paperware, etc.), custodial and maintenance supplies (soap,mopheads, etc.), office supplies (paper, pens, etc.) and equipment supplies (fuses, gas for vehicles, etc.).

At the end of the accounting period, the beginning supplies and materials inventory is added to account 0923. The ending supplies and materials inventory is subtracted from that sum to determine the cost of supplies used in the accounting period.

0924 DONATED COMMODITIES

Charge to this account the market value of donated commodities received during the accounting period.

At the end of the accounting period, the beginning donated commodities inventory is added (debited) to account 0924. The ending donated commodities inventory is subtracted (credited) from that sum to determine the cost of donated commodities used.

0931 UTILITIES

Charge to this account the cost of utilities (gas, electricity, oil and telephone). If the Food Service Fund is on the budget plan, charge to account 0931 the monthly payments made under the plan and make an adjustment against this account at year end for any overpayments made.

0932 TRAVEL

Charge to this account expenditures for travel incurred during the accounting period.

0933 TRAINING

Charge to this account expenditures for training costs incurred during the accounting period.

0934 FOOD SERVICE RENTAL

Charge to this account expenditures for rental of buildings and equipment incurred during the accounting period.

0935 PRINTING AND ADVERTISING

Charge to this account the cost of all printing, binding, newspaper advertisements for bids and other reproduction expenses incurred in the accounting period.

0936 INDIRECT COSTS

Charge to this account the amount of indirect costs incurred during the accounting period. Charges to account 0936 will usually be made at the time the reimbursement claim forms are being prepared for the Federal School Milk, Lunch and Breakfast Programs. Instructions for calculating the amount to be charged as indirect costs will be provided for on the reimbursement forms.

Indirect costs are determined through the use of an approved nonrestricted indirect cost rate. Public schools can obtain an indirect cost rate by completing a DECO-778 Application For a Restricted or Nonrestricted Indirect Cost Rate and submitting the application to the Comptroller's Office, Pennsylvania Department of Education for approval. Nonpublic schools and residential child care institutions are all assigned the same indirect cost rate. The rate they will use is provided to them by the Division of Food and Nutrition Services, Pennsylvania Department of Education.

When account 0936 is debited, a corresponding credit should be made to account 2563-Contributions From the General Fund-Noncash or account 3221-Due to Other Funds. The account to be credited will depend on whether the General Fund is to be reimbursed for the indirect costs it incurred on behalf of the Food Service Fund. If the General Fund is not to be reimbursed, account 2563 would be credited. If the General Fund is to be reimbursed, account 3221 would be credited.

0939 OTHER EXPENSES FOR FOOD SERVICE

Charge to this account expenditures for other expenses of the Food Service program for which a specific account is not provided.

0941 EQUIPMENT DEPRECIATION COST - NON FEDERALLY FUNDED

Charge to this account the depreciation expense incurred during the accounting period for all equipment belonging to Food Service Fund (including vehicles) from funds provided by sources other than the Federal Government. Depreciation must be calculated in accordance with the guidelines established in FNS (CN) INSTRUCTION 796-1 (Rev. 2).

At the end of the accounting period, account 0941 should be closed out against account number 3374-Net Investment in Food Service Equipment. Do not close out account 0941 to account 3590 Budgetary Clearance. A credit entry would be made for the total amount being shown in account 0941 and a corresponding debit entry would be made to account 3374.

When a charge (debit) is made to account 0941, a corresponding charge (credit) should be made to account number 3375-Accumulated Depreciation - Food Service Equipment.

0942 EQUIPMENT DEPRECIATION COST - FEDERALLY FUNDED

Charge to this account the depreciation expense incurred during the accounting period for all equipment belonging to Food Service Fund (including vehicles) from funds provided by the Federal Government. Depreciation must be calculated in accordance with the guidelines established in FNS (CN) INSTRUCTION 796.1 (Rev. 2).

At the end of the accounting period, account 0942 should be closed out against account number 3374-Net Investment in Food Service Fund Equipment. Do not close out account 0942 to account 3590-Budgetary Clearance. A credit entry would be made for the total amount being shown in account 0942 and a corresponding debit entry would be made to account 3374.

When a charge (debit) is made to account 0942, a corresponding charge (credit) should be made to account number 3375-Accumulated Depreciation - Food Service Equipment.

0951 CONTRACTED SERVICE - LAUNDRY AND LINEN

Charge to this account the cost of all laundry and linen services incurred during the accounting period, including replacement linen.

0952 CONTRACTED SERVICE - TRASH REMOVAL

Charge to this account the cost of trash removal services incurred during the accounting period.

0953 CONTRACTED SERVICE - EXTERMINATION

Charge to this account the cost of extermination services incurred during the accounting period.

0954 CONTRACTED SERVICE - REPAIRS AND MAINTENANCE

Charge to this account the cost of ordinary repairs and maintenance to facilities and equipment (including vehicles) incurred during the accounting period.

0955 CONTRACTED SERVICE - PROFESSIONAL AND TECHNICAL SERVICES

Charge to this account the cost of contractual services (e.g., security custodial services, professional food management services, auditors, etc.) incurred during the accounting period. In no case does account 0955 include the cost of employees on the school Food Service Fund payroll.

0956 DONATED SERVICES

Charge to this account the value of donated services used during the accounting period.

When account 0956 is debited, a corresponding credit should be made to account number 2065-Noncash Contributions.

0959 CONTRACTED SERVICES - OTHER

Charge to this account the costs for all other services obtained on a contractual basis, which are not separately classified.

CAPITAL OUTLAY
1200 Series

CAPITAL OUTLAY is classified as an expenditures function and represents functions which result in fixed assets or additions to fixed assets. This is established and used for budgetary purposes only. The purchase of equipment is initially recorded as an expenditure; however, at the end of the accounting periods, accounts in this function are closed out to asset account 3174-Food Service Equipment rather than account 3590-Budgetary Clearance. School systems may wish to maintain separate subaccounts for each project in addition to the accounts provided herein.

In the Food Service Program there is a necessity to match current costs with current revenue in order to determine a true profit or loss for the current period, therefore, equipment purchases must be capitalized and not expensed because the equipment benefits more than the current accounting period.

1247 EQUIPMENT

Charge to this account the cost of equipment purchased during the accounting period.

At the end of the accounting period, account 1247 should be closed out to account 3174-Food Service Equipment. A credit entry would be made for the total amount being shown in account 1247, and a corresponding debit entry would be made to account 3174-Food Service Equipment.

Account 1247 should be closed out before depreciation expense is calculated and posted to the appropriate accounts.

DEBT SERVICE
1300 Series

DEBT SERVICE is classified as a function and includes expenditures for benefits received in prior, present or future fiscal periods.

1379 REFUNDS OF PRIOR YEARS' RECEIPTS

Charge to this account expenditures made by Food Service Fund for refunds of money received prior to the current fiscal year that now constitutes debt or is an adjudged liability and must be repaid.

Do not charge to account 1379 payments of refunds of revenues received during the current fiscal year; such refund payments should be recorded as reductions of the applicable revenue accounts.